

## TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS – COMPLIANCE	
Separation of Duties – Disbursements	2-3
Medical Transportation	3
Obsolete Controlled Documents	3
Knowledge of IRS Security Procedures	4
RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS	
Payroll Record Retention	4

## **INTRODUCTION**

The Office of Internal Audit performed an audit of Huron County FIA for the period October 1, 1998 through June 18, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Huron County FIA had 30 full time equated positions (FTE's) at the time of our review. Huron County FIA provided assistance to an average 1987 recipients per month during FY 1998, with total assistance payments of \$2,019,556 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Huron County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Procurement Card	Phone Usage
ENP/SER Payments	Payroll Review
Medical Transportation	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Huron County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did, however, find a few instances of noncompliance with MFIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Huron County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated June 21, 1999 that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Huron County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Separation of Duties - Disbursements**

1. Huron County FIA did not properly separate the cash disbursement duties. Our review disclosed that the employee who signed the checks, prepared the Sign-O-Meter Record (FIA-4711), has access to blank checks and performed the bank reconciliation. Accounting Manual Item 410 states that for internal control purposes, the person responsible for signing the checks should be an employee independent of the cash disbursement function. Accounting Manual Item 410.1 states that the FIA-4711 should be prepared by someone independent of the automated disbursement function. Accounting Manual Item 405 states that the

person reconciling the disbursing account should not be responsible for check writing or check signing.

WE RECOMMEND that Huron County FIA have an employee independent of the check preparation process operate the check signing machine, perform the bank reconciliation, and prepare the FIA-4711.

#### Medical Transportation

2. Huron County FIA did not have completed Medical Needs Authorizations (FIA-54A) on file for 5 out of 11 cases we reviewed. Also, one case needed an updated FIA-54A. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Huron County FIA ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

#### Obsolete Controlled Documents

3. Huron County FIA had obsolete Medical Authorizations (FIA-2162) on hand, which they were not controlling. Accounting Manual Item 403 gives instructions for the destruction of obsolete forms. Keeping obsolete forms on hand and not controlling them increases the risk of these forms being used inappropriately.

WE RECOMMEND that Huron County FIA destroy the obsolete FIA-2162's in accordance with the instructions in Accounting Manual Item 403.

#### Knowledge of IRS Security Procedures

4. Staff at Huron County FIA were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual Item 800 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Huron County FIA familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

#### **RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS**

The following is an area where we have identified a control weakness at Huron County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### Payroll Record and Retention

5. The Huron County FIA timekeeper maintained the certified copy of the HR-332A. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that Huron County FIA have the certifier or someone other than the timekeeper retain the HR-332A.